

# LINCOLN COUNTY SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2009

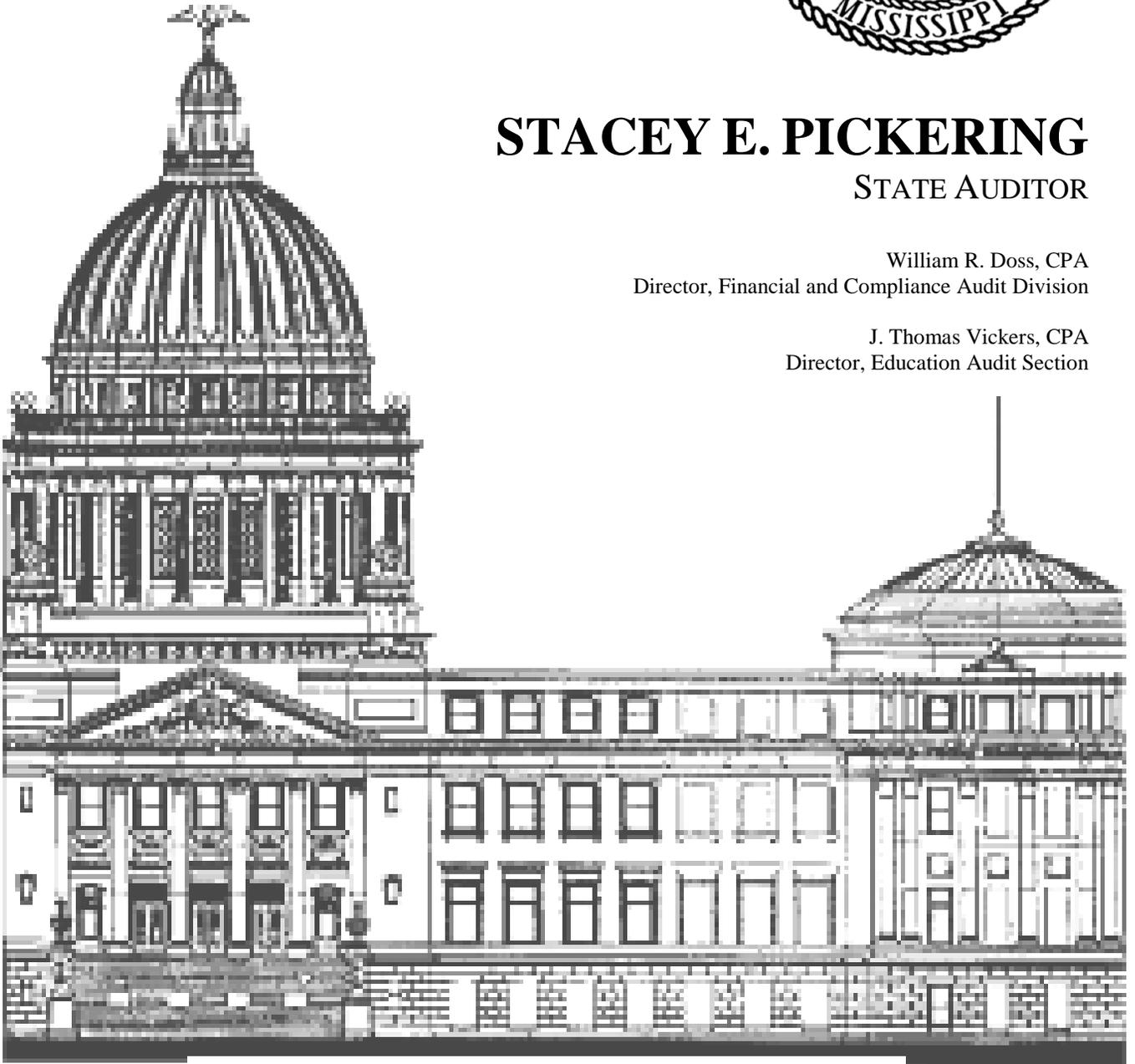


## STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA  
Director, Financial and Compliance Audit Division

J. Thomas Vickers, CPA  
Director, Education Audit Section



A Report from the Education Audit Section

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

February 15, 2011

Members of the School Board  
Lincoln County School District

Dear Board Members:

I am pleased to submit to you the 2009 financial and compliance audit report for the Lincoln County School District. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

I appreciate the cooperation and courtesy extended by the Superintendent and other employees of the Lincoln County School District throughout the audit. Thank you for working to move Mississippi forward by serving as a board member for the Lincoln County School District. If I or this office can be of any further assistance, please contact me or Tommy Vickers of my staff at (601) 576-2666.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Stacey E. Pickering  
State Auditor

**POST OFFICE BOX 956 • JACKSON, MISSISSIPPI 39205 • (601) 576-2800 • FAX (601) 576-2650**  
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LINCOLN COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

FINANCIAL AUDIT REPORT .....1  
    Independent Auditor’s Report on the Basic Financial Statements and Supplemental Information .....3

MANAGEMENT’S DISCUSSION AND ANALYSIS .....5

FINANCIAL STATEMENTS .....15  
    Statement of Net Assets .....17  
    Statement of Activities .....18  
    Balance Sheet – Governmental Funds .....19  
    Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets .....20  
    Statement of Revenues, Expenditures and Changes in Fund Balance .....21  
    Reconciliation of the Governmental Funds Statement of Revenues, Expenditures  
        and Changes in Fund Balances to the Statement of Activities .....23  
    Statement of Fiduciary Assets and Liabilities .....24  
    Notes to the Financial Statements .....26

REQUIRED SUPPLEMENTAL INFORMATION .....44  
    Budgetary Comparison Schedule - General Fund .....46  
    Budgetary Comparison Schedule – Title I Basic Fund .....47  
    Budgetary Comparison Schedule – Title II-A Fund .....48  
    Budgetary Comparison Schedule – IDEA Part B Fund .....49  
    Budgetary Comparison Schedule – Sixteenth Section Interest Fund .....50  
    Notes to the Required Supplemental Information .....51

SUPPLEMENTAL INFORMATION .....52  
    Schedule of Expenditures of Federal Awards .....53  
    Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds .....54

OTHER SUPPLEMENTAL INFORMATION .....56  
    Statement of Revenues, Expenditures and Changes in Fund Balances -  
        General Fund - Last Four Years .....58  
    Statement of Revenues, Expenditures and Changes in Fund Balances -  
        All Governmental Funds - Last Four Years .....59

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE .....60  
    Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance  
        and Other Matters Based on an Audit of the Financial Statements Performed in Accordance  
        with *Government Auditing Standards* .....62  
    Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Federal  
        Program and Internal Control over Compliance in Accordance with OMB Circular A-133 .....64

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS .....67  
    Independent Auditor’s Report on Compliance with State Laws and Regulations .....69

SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....71

AUDITEE’S CORRECTIVE ACTION PLAN .....77



LINCOLN COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

LINCOLN COUNTY SCHOOL DISTRICT

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

INDEPENDENT AUDITOR'S REPORT  
ON  
THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board  
Lincoln County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of and for the year ended June 30, 2009, which collectively comprise the Lincoln County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lincoln County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

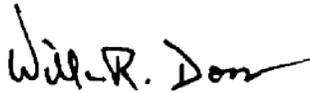
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2011, on our consideration of the Lincoln County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lincoln County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink that reads "Will R. Dooss". The signature is written in a cursive, slightly slanted style.

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

February 15, 2011

LINCOLN COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

LINCOLN COUNTY SCHOOL DISTRICT

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LINCOLN COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009

The discussion and analysis of Lincoln County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2009. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this District's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

### FINANCIAL HIGHLIGHTS

- Total net assets for 2009 increased \$4,058,354, including a prior period adjustment of \$909, which represents a 13.93% increase from fiscal year 2008. This increase in net assets is primarily due to the following: 1) capital outlays of \$860,411 during the fiscal year were not reported as expenses in the Statement of Activities but were capitalized on the Statement of Net Assets, 2) repayment of debt principal in the amount of \$510,000 was not reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets, 3) sixteenth section sources generated during the fiscal year primarily from the sale of timber, oil and gas royalties, sixteenth section leases and earnings on sixteenth section investments, and 4) a conservative approach to budgeting and spending during the fiscal year. Total net assets for 2008 increased \$5,129,600, which represents a 21.37% increase from fiscal year 2007.
- General revenues amounted to \$20,602,492 and \$21,663,063, or 84.44% and 85.15% of all revenues for fiscal years 2009 and 2008, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,796,942, or 15.56% of total revenues for 2009, and \$3,778,141, or 14.85% of total revenues for 2008.
- The District had \$20,341,989 and \$20,311,604 in expenses for fiscal years 2009 and 2008; only \$3,796,942 for 2009 and \$3,778,141 for 2008 of these expenses was offset by program specific charges for services and grants and contributions. General revenues of \$20,602,492 for 2009 and \$21,663,063 for 2008 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,712,192 in revenues and \$15,481,826 in expenditures for 2009, and \$17,902,608 in revenues and \$15,556,450 in expenditures in 2008. The General Fund's fund balance decreased by \$90,834, which is net of a prior period adjustment of \$776, from 2008 to 2009, and increased by \$1,061,807 from 2007 to 2008.
- Capital assets, net of accumulated depreciation, increased by \$140,624 for 2009 and increased by \$2,141,345 for 2008. The increase for 2009 was due primarily to completed construction of school facilities and building improvements and the purchase of four new school buses during the fiscal year, less the disposal of capital assets and the increase in accumulated depreciation.
- Long-term debt decreased by \$510,000 for 2009 and decreased by \$473,762 for 2008. The decrease for 2009 was due primarily to the principal payments on outstanding long-term debt. In addition, the liability for compensated absences increased by \$5,403 for 2009 and decreased by \$3,762 for 2008.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

LINCOLN COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section and interest on long-term liabilities.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the School District's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. The governmental fund's balance sheet is reconciled to the statement of net assets, and the governmental fund's statement of revenues, expenditures, and changes in fund balances is reconciled to the statement of activities to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund's balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined and presented in these reports as other governmental funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund.

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

LINCOLN COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009

Also, included in the other supplemental information section are the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years. This information is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$33,198,448 as of June 30, 2009.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

Table 1 presents a summary of the District's net assets at June 30, 2009 and June 30, 2008.

Table 1  
Condensed Statement of Net Assets

	June 30, 2009	June 30, 2008	Percentage Change
Current assets	\$ 12,764,537	11,175,215	14.22 %
Restricted assets	8,161,966	6,369,783	28.14 %
Capital assets, net	<u>18,923,740</u>	<u>18,783,116</u>	0.75 %
<b>Total assets</b>	<u>39,850,243</u>	<u>36,328,114</u>	9.70 %
Current liabilities	152,062	183,690	(17.22) %
Long-term debt outstanding	<u>6,499,733</u>	<u>7,004,330</u>	(7.20) %
<b>Total liabilities</b>	<u>6,651,795</u>	<u>7,188,020</u>	(7.46) %
<b>Net assets:</b>			
Invested in capital assets, net of related debt	12,548,740	11,898,116	5.47 %
Restricted	9,130,577	7,390,695	23.54 %
Unrestricted	<u>11,519,131</u>	<u>9,851,283</u>	16.93 %
<b>Total Net Assets</b>	<u>\$ 33,198,448</u>	<u>29,140,094</u>	13.93 %

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- Increase in net capital assets in the amount of \$140,624.
- The principal retirement of \$510,000 of long-term debt.
- The increase in restricted assets is due primarily to the increase in cash and cash equivalents of the 16<sup>th</sup> Section Principal Funds which are classified as restricted because the funds are not available for use by the District except as provided for under state statute for loans from this account.

**Changes in net assets.** The District's total revenues for the fiscal years ended June 30, 2009 and June 30, 2008 were \$24,399,434 and \$25,441,204, respectively. The total cost of all programs and services was \$20,341,989 for 2009 and \$20,311,604 for 2008. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2009 and June 30, 2008.

LINCOLN COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009

Table 2  
Changes in Net Assets

	Year Ended June 30, 2009	Year Ended June 30, 2008	Percentage Change
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 929,383	945,393	(1.69) %
Operating grants and contributions	2,867,559	2,832,748	1.23 %
General revenues:			
Property taxes	3,582,260	3,506,449	2.16 %
Grants and contributions not restricted	14,233,931	14,367,027	(0.93) %
Investment earnings	154,592	586,144	(73.63) %
Sixteenth section sources	2,578,972	3,014,992	(14.46) %
Other	52,737	188,451	(72.02) %
<b>Total Revenues</b>	<u>24,399,434</u>	<u>25,441,204</u>	(4.09) %
<b>Expenses:</b>			
Instruction	12,111,972	11,913,779	1.66 %
Support services	6,037,046	6,094,688	(0.95) %
Non-instructional	1,441,552	1,393,381	3.46 %
Sixteenth section	460,829	598,075	(22.95) %
Interest and other expense on long-term liabilities	290,590	311,681	(6.77) %
<b>Total Expenses</b>	<u>20,341,989</u>	<u>20,311,604</u>	0.15 %
<b>Increase (Decrease) in net assets</b>	<u>4,057,445</u>	<u>5,129,600</u>	(20.90) %
<b>Net Assets, July 1</b>	29,140,094	24,010,494	21.36 %
<b>Prior Period Adjustment</b>	909	-	
<b>Net Assets Restated, July 1</b>	<u>29,141,003</u>	<u>24,010,494</u>	21.37 %
<b>Net Assets, June 30</b>	<u>\$ 33,198,448</u>	<u>29,140,094</u>	13.93 %

**Governmental activities.** The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section, and interest on long-term debt. The table also shows each functional activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost presents the financial burden that was placed on the State and District's taxpayers by each of these functions.

LINCOLN COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009

Table 3  
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2009	2008	
Instruction	\$ 12,111,972	11,913,779	1.66 %
Support services	6,037,046	6,094,688	(0.95) %
Non-instructional	1,441,552	1,393,381	3.46 %
Sixteenth section	460,829	598,075	(22.95) %
Interest on long-term liabilities	290,590	311,681	(6.77) %
<b>Total Expense</b>	<b>\$ 20,341,989</b>	<b>20,311,604</b>	<b>0.15 %</b>

	Total (Expense) Revenue		Percentage Change
	2009	2008	
Instruction	\$ (10,427,496)	(10,109,896)	(3.14) %
Support services	(5,461,393)	(5,535,896)	1.35 %
Non-instructional	74,300	22,085	236.43 %
Sixteenth section	(439,868)	(598,075)	26.45 %
Interest on long-term liabilities	(290,590)	(311,681)	6.77 %
<b>Total Net (Expense) Revenue</b>	<b>\$ (16,545,047)</b>	<b>(16,533,463)</b>	<b>(0.07) %</b>

- Net cost of governmental activities in the amount of \$16,545,047 for 2009 and \$16,533,463 for 2008 was financed by general revenue, which is made up of primarily property taxes of \$3,582,260 for 2009 and \$3,506,449 for 2008 and state and federal revenues of \$14,233,931 for 2009 and \$14,367,027 for 2008. In addition, there was \$2,578,972 and \$3,014,992 in Sixteenth Section sources for 2009 and 2008, respectively.
- Investment earnings amounted to \$154,592 for 2009 and \$586,144 for 2008.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$20,845,413, an increase of \$3,407,243, which includes a prior period adjustment of \$776 and an increase in reserve for inventory of \$7,293. This increase is due primarily to sixteenth section sources generated during the fiscal year mainly from the sale of timber, oil and gas royalties, sixteenth section leases and earnings on sixteenth section investments, and a conservative approach to budgeting and spending during the fiscal year. \$8,159,012, or 39.14%, of the fund balance represents unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$12,686,401, or 60.86%, is reserved or designated to indicate that it is not available for spending because it has already been committed.

LINCOLN COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$90,834, which is net of a prior period adjustment of \$776. This decrease in fund balance is primarily a result of a transfer of \$2,000,000 from the General Fund to the 2005 Construction Fund to be used for future capital improvements. The fund balance of Other Governmental Funds showed a decrease in the amount of \$60,519, which is net of an increase in reserve for inventory of \$7,293. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I Basic Fund	no increase or decrease
Title II-A Fund	no increase or decrease
IDEA Part B Fund	no increase or decrease
Sixteenth Section Interest Fund	\$ 187,461
2005 Construction Fund	\$ 1,388,646
Sixteenth Section Principal Fund	\$ 1,982,489

**BUDGETARY HIGHLIGHTS**

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Significant budget revisions are explained as follows:

- Budgeted amounts for revenue from state sources in the General Fund were decreased to reflect the decrease in Mississippi Adequate Education Program funds received during the fiscal year.
- Budgeted amounts for facilities acquisition and construction expenditures in the General Fund were decreased due primarily to various renovation and construction projects being delayed until the next fiscal year.
- Budgeted amounts for transfers out of the General Fund were increased to reflect the transfer of \$2,000,000 to the 2005 Construction Fund to be used for capital improvements. This transfer was not included in the original budget. Budgeted amounts for transfers into the 2005 Construction Fund were also amended to reflect this transfer.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and major special revenue funds is provided in this report as required supplemental information.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2009, the District's total capital assets were \$25,495,667, including land, construction in progress, school buildings, building improvements and other improvements, buses, other school vehicles and furniture and equipment. This amount represents a gross increase of \$633,680 from 2008. Total accumulated depreciation as of June 30, 2009, was \$6,571,927, and total depreciation expense for the year was \$697,076, resulting in total net capital assets of \$18,923,740.

LINCOLN COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2009

Table 4  
Capital Assets

	Capital Assets, Net of Depreciation		Percentage Change
	June 30, 2009	June 30, 2008	
Land	\$ 389,901	389,901	0.00 %
Construction in Progress	10,311	2,319,868	(99.56) %
Buildings	14,865,790	13,177,484	12.81 %
Building improvements	1,197,958	391,118	206.29 %
Improvements other than buildings	1,236,860	1,297,140	(4.65) %
Mobile equipment	1,116,580	1,053,985	5.94 %
Furniture and equipment	106,340	153,620	(30.78) %
<b>Total</b>	<b>\$ 18,923,740</b>	<b>18,783,116</b>	<b>0.75 %</b>

**Debt Administration.** At June 30, 2009, the District had \$6,499,733 in outstanding long-term debt, of which \$531,237 is due within one year. The District made principal payments in the amount of \$510,000 during the fiscal year on existing long-term debt. The liability for compensated absences at June 30, 2009 was \$124,733, an increase of \$5,403 from the prior year.

Table 5  
Outstanding Long-Term Debt

		June 30, 2009	June 30, 2008	Percentage Change
General obligation bonds payable	\$	2,985,000	3,160,000	(5.54) %
Limited obligation bonds payable		3,225,000	3,485,000	(7.46) %
Certificates of participation payable		165,000	240,000	(31.25) %
Compensated absences payable		124,733	119,330	4.53 %
<b>Total</b>	<b>\$</b>	<b>6,499,733</b>	<b>7,004,330</b>	<b>(7.20) %</b>

**CURRENT ISSUES**

The Lincoln County School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District actively pursues grant funding to supplement the local, state and federal revenues.

Student enrollment increased from 3,026 students for the 2007-2008 school year to 3,048 students for the 2008-2009 year, or an increase of .73%.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Lincoln County School District, P. O. Box 826, Brookhaven, MS 39601.

LINCOLN COUNTY SCHOOL DISTRICT

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LINCOLN COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

LINCOLN COUNTY SCHOOL DISTRICT

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LINCOLN COUNTY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2009

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 11,842,277
Due from other governments	765,344
Other receivables, net	116,335
Inventories	40,581
Restricted assets	8,161,966
Capital assets, non-depreciable:	
Land	389,901
Construction in progress	10,311
Capital assets, net of accumulated depreciation:	
Buildings	14,865,790
Building improvements	1,197,958
Improvements other than buildings	1,236,860
Mobile equipment	1,116,580
Furniture and equipment	106,340
	<hr/>
Total Assets	39,850,243
Liabilities	
Accounts payable and accrued liabilities	75,337
Unearned revenue	5,753
Interest payable on long-term liabilities	70,972
Long-term liabilities, due within one year	
Capital related liabilities	525,000
Non-capital related liabilities	6,237
Long-term liabilities, due beyond one year	
Capital related liabilities	5,850,000
Non-capital related liabilities	118,496
	<hr/>
Total Liabilities	6,651,795
Net Assets	
Invested in capital assets, net of related debt	12,548,740
Restricted net assets:	
Expendable:	
School-based activities	650,751
Debt service	303,691
Forestry improvements	13,095
Unemployment benefits	60,354
Non-expendable:	
Sixteenth section	8,102,686
Unrestricted	11,519,131
	<hr/>
Total Net Assets	\$ <u><u>33,198,448</u></u>

The notes to the financial statements are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2009

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 12,111,972	317,575	1,366,901		(10,427,496)
Support services	6,037,046		575,653		(5,461,393)
Non-instructional	1,441,552	590,847	925,005		74,300
Sixteenth section	460,829	20,961			(439,868)
Interest on long-term liabilities	290,590				(290,590)
<b>Total Governmental Activities</b>	<b>\$ 20,341,989</b>	<b>929,383</b>	<b>2,867,559</b>	<b>0</b>	<b>(16,545,047)</b>

General Revenues:

Taxes:

General purpose levies	3,380,846
Debt purpose levies	201,414

Unrestricted grants and contributions:

State	14,151,382
Federal	82,549
Unrestricted investment earnings	154,592
Sixteenth section sources	2,578,972
Other	52,737

<b>Total General Revenues</b>	<b>20,602,492</b>
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Change in Net Assets	4,057,445
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Net Assets - Beginning, as originally reported	29,140,094
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Prior Period Adjustment	909
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Net Assets - Beginning - Restated	29,141,003
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Net Assets - Ending	\$ 33,198,448
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The notes to the financial statements are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT  
 Balance Sheet - Governmental Funds  
 June 30, 2009

Exhibit C

	Major Funds					2005 Construction Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Basic Fund	Title II - A Fund	IDEA Part B Fund	Sixteenth Section Interest Fund				
<b>ASSETS</b>									
Cash and cash equivalents	\$ 3,984,922				3,084,460	4,095,022	8,005,495	677,873	19,847,772
Investments								156,471	156,471
Due from other governments	377,075	77,476	27,701	53,497				229,510	765,259
Accrued interest receivable								1	1
Other receivables, net		297			15,373		100,665		116,335
Due from other funds	162,086								162,086
Inventories								40,581	40,581
<b>Total Assets</b>	<b>\$ 4,524,083</b>	<b>77,773</b>	<b>27,701</b>	<b>53,497</b>	<b>3,099,833</b>	<b>4,095,022</b>	<b>8,106,160</b>	<b>1,104,436</b>	<b>21,088,505</b>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable and accrued liabilities	\$ 75,074							263	75,337
Due to other funds		77,773	27,701	53,497				3,031	162,002
Unearned revenue								5,753	5,753
<b>Total Liabilities</b>	<b>75,074</b>	<b>77,773</b>	<b>27,701</b>	<b>53,497</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,047</b>	<b>243,092</b>
<b>Fund Balances:</b>									
<b>Reserved for:</b>									
Inventory								40,581	40,581
Debt service								374,663	374,663
Unemployment benefits								60,354	60,354
Forestry improvement purposes								13,095	13,095
Permanent fund purposes							8,102,686		8,102,686
<b>Unreserved:</b>									
<b>Designated for, reported in:</b>									
Capital Projects Funds						4,095,022			4,095,022
<b>Undesignated, reported in:</b>									
General Fund	4,449,009								4,449,009
Special Revenue Funds					3,099,833			606,696	3,706,529
Permanent Funds							3,474		3,474
<b>Total Fund Balances</b>	<b>4,449,009</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,099,833</b>	<b>4,095,022</b>	<b>8,106,160</b>	<b>1,095,389</b>	<b>20,845,413</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,524,083</b>	<b>77,773</b>	<b>27,701</b>	<b>53,497</b>	<b>3,099,833</b>	<b>4,095,022</b>	<b>8,106,160</b>	<b>1,104,436</b>	<b>21,088,505</b>

The notes to the financial statements are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT  
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
 June 30, 2009

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 20,845,413
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$6,571,927.	18,923,740
2. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	(6,499,733)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	<u>(70,972)</u>
Total Net Assets - Governmental Activities	\$ <u><u>33,198,448</u></u>

The notes to the financial statements are an integral part of this statement.



LINCOLN COUNTY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2009

Exhibit D

	Major Funds							Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Basic Fund	Title II - A Fund	IDEA Part B Fund	Sixteenth Section Interest Fund	2005 Construction Fund	Sixteenth Secton Principal Fund		
Revenues:									
Local sources	\$ 3,822,329	405				24,576		767,060	4,614,370
State sources	13,807,313			3,628				701,831	14,512,772
Federal sources	82,550	669,899	165,718	553,078				1,117,473	2,588,718
Sixteenth section sources					218,851		2,443,563	21,160	2,683,574
Total Revenues	<u>17,712,192</u>	<u>670,304</u>	<u>165,718</u>	<u>556,706</u>	<u>218,851</u>	<u>24,576</u>	<u>2,443,563</u>	<u>2,607,524</u>	<u>24,399,434</u>
Expenditures:									
Instruction	9,989,935	533,225	165,978	236,602				762,762	11,688,502
Support services	5,430,114	118,349		303,587		36,289		165,424	6,053,763
Noninstructional services	47,169	3,262		1,291				1,341,060	1,392,782
Sixteenth section	14,608				21,853		386,877	37,491	460,829
Facilities acquisition and construction						599,641			599,641
Debt service:									
Principal								510,000	510,000
Interest								294,140	294,140
Other								2,340	2,340
Total Expenditures	<u>15,481,826</u>	<u>654,836</u>	<u>165,978</u>	<u>541,480</u>	<u>21,853</u>	<u>635,930</u>	<u>386,877</u>	<u>3,113,217</u>	<u>21,001,997</u>
Excess (Deficiency) of Revenues over Expenditures	<u>2,230,366</u>	<u>15,468</u>	<u>(260)</u>	<u>15,226</u>	<u>196,998</u>	<u>(611,354)</u>	<u>2,056,686</u>	<u>(505,693)</u>	<u>3,397,437</u>
Other Financing Sources (Uses):									
Sale of transportation equipment	1,237								1,237
Sale of other property	500								500
Operating transfers in	164,428		260			2,000,000		487,881	2,652,569
Operating transfers out	(2,488,141)	(15,468)		(15,226)	(9,537)		(74,197)	(50,000)	(2,652,569)
Total Other Financing Sources (Uses)	<u>(2,321,976)</u>	<u>(15,468)</u>	<u>260</u>	<u>(15,226)</u>	<u>(9,537)</u>	<u>2,000,000</u>	<u>(74,197)</u>	<u>437,881</u>	<u>1,737</u>
Net Change in Fund Balances	<u>(91,610)</u>				<u>187,461</u>	<u>1,388,646</u>	<u>1,982,489</u>	<u>(67,812)</u>	<u>3,399,174</u>
Fund Balances:									
July 1, 2008, as originally reported	4,539,843				2,912,372	2,706,376	6,123,671	1,155,908	17,438,170
Prior period adjustment	776								776
July 1, 2008, as restated	<u>4,540,619</u>				<u>2,912,372</u>	<u>2,706,376</u>	<u>6,123,671</u>	<u>1,155,908</u>	<u>17,438,946</u>
Increase in reserve for inventory								7,293	7,293
June 30, 2009	<u>\$ 4,449,009</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,099,833</u>	<u>4,095,022</u>	<u>8,106,160</u>	<u>1,095,389</u>	<u>20,845,413</u>

The notes to the financial statements are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2009

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 3,399,174
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$860,411 and the depreciation expense amounted to \$697,076.	163,335
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	510,000
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	5,890
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(22,844)
5. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.	7,293
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	<u>(5,403)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>4,057,445</u></u>

The notes to the financial statements are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT  
Statement of Fiduciary Assets and Liabilities  
June 30, 2009

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>833,531</u>
Total Assets	\$ <u><u>833,531</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 780,696
Due to other funds	84
Due to student clubs	<u>52,751</u>
Total Liabilities	\$ <u><u>833,531</u></u>

The notes to the financial statements are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT

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LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

(1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity.

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member is elected by the citizens of each defined county district.

For financial reporting purposes, Lincoln County School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

Blended component unit.

The Lincoln County Schools Leasing Authority, Inc. ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which is appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

Title I Basic Fund – This special revenue fund is financed with federal funds and is used to account for expenditures associated with educationally deprived children.

Title II-A Fund – This special revenue fund is financed with federal funds and is used to account for expenditures associated with improving teacher quality.

IDEA Part B Fund – This special revenue fund is financed with federal funds and is used to account for expenditures associated with children with disabilities.

Sixteenth Section Interest Fund – This special revenue fund is used to account for the expendable financial resources generated from the use of sixteenth section trust lands. Available funds may be transferred to the General Fund or Construction Funds and may be used for appropriate purposes.

2005 Construction Fund – This capital projects fund is used to account for capital expenditures which are financed by transfers from the General Fund.

Sixteenth Section Principal Fund – This permanent fund is used to account for the sale of non-renewable resources (oil, gas, gravel, sand, etc.) on sixteenth section lands. The use of the fund is limited to providing advances to the General Fund or Capital Projects Fund to finance capital expenditures. State law requires any funds on hand to be invested. Interest income may be transferred to the General Fund.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

# LINCOLN COUNTY SCHOOL DISTRICT

## Notes to the Financial Statements For the Year Ended June 30, 2009

Additionally, the school district reports the following fund types:

### GOVERNMENTAL FUND TYPES

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Funds - Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

### FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

#### C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

E. Encumbrances.

An encumbrance system is maintained to account for commitments resulting from purchase orders, work orders, and contracts during the fiscal year. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported as reservations of fund balances.

F. Assets, liabilities, and net assets or equity

1. Cash, Cash equivalents and Investments.

Cash and cash equivalents.

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

Investments for the district, as well as for its component unit, are reported at fair market value.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

2. Receivables and payables.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds”(i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments.

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets.

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below and estimated useful lives in excess of two years.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(\*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

7. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums.

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. Fund equity.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following are descriptions of fund reserves used by the district:

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

Reserved for debt service - An account that represents that portion of fund balance in the Debt Service Fund which is legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvement purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

Unreserved - designated for, reported in capital projects funds - An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future repairs, renovations, and construction projects of district buildings and facilities.

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

(2) Cash and Cash Equivalents and Investments.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

**Investments.** Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$19,847,772 and \$833,531, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents of \$11,842,277 and restricted assets of \$8,005,495. The bank balance was \$21,716,681.

*Custodial Credit Risk - Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2009, none of the district's bank balance of \$21,716,681 was exposed to custodial credit risk.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

Investments.

As of June 30, 2009, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Federal U.S. Treasury Cash Reserves Money Market Mutual Fund	less than one year	\$ <u>156,471</u>	AAAm-G *
Total Investments		\$ <u><u>156,471</u></u>	

\*The investment in the Federal U.S. Treasury Cash Reserves Money Market Mutual Fund is uninsured and unregistered and is not backed by the full faith and credit of the federal government.

*Interest Rate Risk.* The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

(3) Inter-fund Receivables, Payables and Transfers.

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Title I Basic Fund	\$ 77,773
General Fund	Title II - A Fund	27,701
General Fund	IDEA Part B Fund	53,497
General Fund	Other governmental funds	3,031
General Fund	Fiduciary funds	<u>84</u>
Total		\$ <u><u>162,086</u></u>

The primary purpose of the interfund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

B. Inter-fund Transfers.

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Title II - A Fund	\$ 260
General Fund	2005 Construction Fund	2,000,000
General Fund	Other governmental funds	487,881
Title I Basic Fund	General Fund	15,468
IDEA Part B Fund	General Fund	15,226
Sixteenth Section Interest Fund	General Fund	9,537
Sixteenth Section Principal Fund	General Fund	74,197
Other governmental funds	General Fund	<u>50,000</u>
Total		\$ <u><u>2,652,569</u></u>

The transfer out of the General Fund was primarily for the purpose of funding the vocational program and the transfer of funds to the 2005 Construction Fund to be used for capital improvements. The transfers from the Title I Basic Fund, the IDEA Part B Fund and the Other Governmental Funds were for indirect costs. The transfer from the Sixteenth Section Principal Fund was for accumulated interest which is available for expenditures of the district.

(4) Restricted Assets.

The restricted assets represent the cash balance in the amount of \$8,005,495 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition the restricted assets represent the investment balance in the amount of \$156,471 of the MAEP Limited Obligation Bond Debt Service Fund.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

(5) Capital Assets.

The following is a summary of changes in capital assets for governmental activities:

	Balance 7/1/2008	Additions	Retirements	Completed Construction	Adjustments*	Balance 6/30/2009
Governmental Activities:						
<u>Non-depreciable capital assets:</u>						
Land	\$ 389,901					389,901
Construction in progress	2,319,868	599,641		(2,909,198)		10,311
Total non-depreciable capital assets	2,709,769	599,641		(2,909,198)		400,212
<u>Depreciable capital assets:</u>						
Buildings	16,967,990			2,051,026		19,019,016
Building improvements	425,128			858,172		1,283,300
Improvements other than buildings	1,679,075					1,679,075
Mobile equipment	2,331,724	255,400	174,122		10,350	2,423,352
Furniture and equipment	748,301	5,370	52,609		(10,350)	690,712
Total depreciable capital assets	22,152,218	260,770	226,731	2,909,198		25,095,455
<u>Less accumulated depreciation for:</u>						
Buildings	3,790,506	362,720				4,153,226
Building improvements	34,010	51,332				85,342
Improvements other than buildings	381,935	60,280				442,215
Mobile equipment	1,277,739	180,382	152,680		1,331	1,306,772
Furniture and equipment	594,681	42,362	51,207		(1,464)	584,372
Total accumulated depreciation	6,078,871	697,076	203,887		(133)	6,571,927
Total depreciable capital assets, net	16,073,347	(436,306)	22,844	2,909,198	133	18,523,528
Governmental activities capital assets, net	\$ 18,783,116	163,335	22,844		133	18,923,740

\*An adjustment was made to reclassify a lawn mower, reported as furniture and equipment in previous fiscal years, to mobile equipment in the current fiscal year. The accumulated depreciation associated with this lawn mower was also properly reclassified.

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 418,848
Support services	222,645
Non-instructional	55,583
Total Depreciation Expense	\$ 697,076

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

Commitments under construction contracts at June 30, 2009, are summarized as follows:

Governmental Activities	Spent to June 30, 2009	Remaining Commitment
Enterprise New Baseball Field	\$ 10,311	
Total	\$ 10,311	

Expenditures incurred during the fiscal year related to the new baseball field at Enterprise were for architect fees associated with the planning stages of the project. A construction contract had not been approved as of June 30, 2009; therefore, no remaining commitment could be determined.

(6) Long-term Liabilities.

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance 7/1/2008	Additions	Reductions	Adjustments	Balance 6/30/2009	Amounts due within one year
A. General obligation bonds payable	\$ 3,160,000		175,000		2,985,000	190,000
B. Limited obligation bonds payable	3,485,000		260,000		3,225,000	260,000
C. Certificates of participation payable	240,000		75,000		165,000	75,000
D. Compensated absences payable	119,330	5,403			124,733	6,237
Total	\$ 7,004,330	5,403	510,000	-	6,499,733	531,237

A. General obligation bonds payable.

General obligation bonds are direct obligations and pledge the full faith and credit of the school district. General obligation bonds currently outstanding are as follows:

Description	Interest Rates	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 2002	3.5-4.6%	12/1/2002	6/1/2020	\$ 3,800,000	2,985,000
Total				\$ 3,800,000	2,985,000

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

Details of the district's general obligation bonded indebtedness are as follows:

Bond issue of December 1, 2002:

Year Ending June 30	Principal	Interest	Total
2010	\$ 190,000	124,442	314,442
2011	205,000	117,318	322,318
2012	220,000	109,527	329,527
2013	240,000	101,388	341,388
2014	255,000	92,268	347,268
2015 - 2019	1,520,000	291,285	1,811,285
2020 - 2024	355,000	16,330	371,330
<b>Total</b>	<b>\$ 2,985,000</b>	<b>852,558</b>	<b>3,837,558</b>

This debt will be retired from the 2002 Bond and Interest Fund (Debt Service Fund).

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2009, the amount of outstanding bonded indebtedness was equal to 3.50% of property assessments as of October 1, 2008.

B. Limited obligation bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

Description	Interest Rates	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 1998	4.2-6.0%	3/1/1998	2/1/2018	\$ 5,200,000	3,225,000
<b>Total</b>				<b>\$ 5,200,000</b>	<b>3,225,000</b>

Details of the district's limited obligation bonds indebtedness are as follows:

Limited obligation bond issue of March 1, 1998:

Year Ending June 30	Principal	Interest	Total
2010	\$ 260,000	140,075	400,075
2011	270,000	128,545	398,545
2012	285,000	116,193	401,193
2013	300,000	103,030	403,030
2014	310,000	89,150	399,150
2015 - 2018	1,800,000	203,722	2,003,722
<b>Total</b>	<b>\$ 3,225,000</b>	<b>780,715</b>	<b>4,005,715</b>

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

This debt will be retired from the MAEP Long Term Pledge Fund (Debt Service Fund).

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The district has pledged \$414,556 of Mississippi Adequate Education Program funds for the purpose of repaying the limited obligation bonds. The pledge will remain in effect through 2018. The amount of the pledge is the total amount of funds available to the district for this particular purpose. During the year, the pledged revenues represent 100% of the principal and interest requirements of the debt. The state aid capital improvement bonds are not included in the computation of the debt limit percentage.

C. Certificates of participation payable.

As more fully explained in Note 11, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rates	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of participation, Series 1998	4.95%	6/1/1998	6/1/2012	\$ 2,000,000	165,000
Total				\$ 2,000,000	165,000

Details of the district's certificates of participation are as follows:

Certificates of participation issued June 1, 1998:

Year Ending June 30	Principal	Interest	Total
2010	\$ 75,000	8,168	83,168
2011	80,000	4,455	84,455
2012	10,000	495	10,495
Total	\$ 165,000	13,118	178,118

This debt will be retired from the EEF Buildings and Buses Fund (Special Revenue Fund).

The district has pledged state appropriations for EEF School Buildings and Buses in the amount of \$87,054. The purpose of the pledge is to repay certificates of participation of the district. The pledge will remain in effect through 2012. The amount of the pledge is the total amount of funds available to the district for this particular purpose. During the year, the pledged revenues represent 100% of the principal and interest requirements for the debt.

D. Compensated absences payable.

As more fully explained in Note 1(F)(7), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

(7) Other Commitments.

Commitments under construction contracts are described in Note 5.

Operating leases:

The school district has several operating leases for the following:

1. 8 Canon Image Runner 5050 copiers
2. 1 Canon Image Runner 5065 copier
3. 4 Canon Image Runner 1023 copiers
4. 2 Canon Image Runner 2022 copiers
5. 1 Pitney Bowes DM100 Desktop mailing system

Lease expenditures for the year ended June 30, 2009, amounted to \$23,092.

Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2010	\$ 25,920
2011	25,920
2012	25,920
2013	25,920
2014	<u>3,058</u>
Total	<u>\$ 106,738</u>

(8) Defined Benefit Pension Plan.

**Plan Description.** The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2009 was 11.85% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2009, 2008 and 2007 were \$1,258,136, \$1,233,405 and \$ 1,095,784, respectively, which equaled the required contributions for each year.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

(9) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2010	\$ 54,835
2011	44,307
2012	43,209
2013	28,875
2014	17,311
2015 – 2019	54,246
2020 – 2024	29,903
2025 – 2029	26,483
2030 – 2034	12,470
Thereafter	4,410
<b>Total</b>	<b>\$ 316,049</b>

(10) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanations</u>	<u>Amount</u>
1. The district determined that some agency accounts should have been activity accounts. Adjustment was necessary to reclassify agency accounts as activity accounts.	\$ 776
2. An entry was made for the difference in accumulated depreciation for a capital asset reclassified from furniture and equipment to mobile equipment.	133
<b>Total</b>	<b>\$ 909</b>

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major Funds</u>	<u>Explanation</u>	<u>Amount</u>
General Fund	The district determined that some agency accounts should have been activity accounts. Adjustment was necessary to reclassify agency accounts as activity accounts.	\$ <u>776</u>
	Total	\$ <u><u>776</u></u>

(11) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Trust Certificates.

A trust agreement dated June 1, 1998, was executed by and between the school district and Lincoln County Schools Leasing Authority, Inc, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$2,000,000. Approximately \$1,992,663 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$7,337 was used to pay the cost of issuance.

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, et seq., Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

LINCOLN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2009

(13) Subsequent Event

Events that occur after the statement of net assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes. Management of the Lincoln County School District evaluated the activity of the district through February 15, 2011, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

The Lincoln County School District entered into a construction contract dated August 14, 2009, in the amount of \$126,670 to complete the construction of the Enterprise Attendance Center Baseball Field-Rough Grading Package.

The Lincoln County School District entered into a construction contract dated June 10, 2010, in the amount of \$348,091 for the construction of the football complex.

The Lincoln County School District entered into a construction contract dated June 10, 2010, in the amount of \$255,916 for the construction of the West Lincoln Attendance Center Parking Area Improvements.

LINCOLN COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

LINCOLN COUNTY SCHOOL DISTRICT

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LINCOLN COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2009

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 3,780,349	3,871,167	3,822,329	90,818	(48,838)
State sources	14,147,763	13,908,656	13,807,313	(239,107)	(101,343)
Federal sources	85,000	90,146	82,550	5,146	(7,596)
Total Revenues	<u>18,013,112</u>	<u>17,869,969</u>	<u>17,712,192</u>	<u>(143,143)</u>	<u>(157,777)</u>
<b>Expenditures:</b>					
Instruction	10,985,484	10,857,268	9,989,935	128,216	867,333
Support services	6,334,185	6,523,374	5,430,114	(189,189)	1,093,260
Noninstructional services	71,448	60,402	47,169	11,046	13,233
Sixteenth section	14,659	14,659	14,608		51
Facilities acquisition and construction	311,000	74,718		236,282	74,718
Total Expenditures	<u>17,716,776</u>	<u>17,530,421</u>	<u>15,481,826</u>	<u>186,355</u>	<u>2,048,595</u>
Excess (Deficiency) of Revenues over Expenditures	<u>296,336</u>	<u>339,548</u>	<u>2,230,366</u>	<u>43,212</u>	<u>1,890,818</u>
<b>Other Financing Sources (Uses):</b>					
Sale of transportation equipment		1,237	1,237	1,237	
Sale of other property		500	500	500	
Operating transfers in	2,165,866	2,249,656	164,428	83,790	(2,085,228)
Operating transfers out	(2,646,209)	(4,627,416)	(2,488,141)	(1,981,207)	2,139,275
Total Other Financing Sources (Uses)	<u>(480,343)</u>	<u>(2,376,023)</u>	<u>(2,321,976)</u>	<u>(1,895,680)</u>	<u>54,047</u>
Net Change in Fund Balances	<u>(184,007)</u>	<u>(2,036,475)</u>	<u>(91,610)</u>	<u>(1,852,468)</u>	<u>1,944,865</u>
<b>Fund Balances:</b>					
July 1, 2008, as originally reported	2,687,968	4,539,843	4,539,843	1,851,875	
Prior period adjustment		776	776	776	
July 1, 2008, as restated	<u>2,687,968</u>	<u>4,540,619</u>	<u>4,540,619</u>	<u>1,852,651</u>	
June 30, 2009	\$ <u>2,503,961</u>	<u>2,504,144</u>	<u>4,449,009</u>	<u>183</u>	<u>1,944,865</u>

The notes to the required supplemental information are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Title I Basic Fund  
 For the Year Ended June 30, 2009

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$	405	405	405	
Federal sources	833,978	934,117	669,899	100,139	(264,218)
Total Revenues	833,978	934,522	670,304	100,544	(264,218)
Expenditures:					
Instruction	684,824	737,702	533,225	(52,878)	204,477
Support services	126,549	173,595	118,349	(47,046)	55,246
Noninstructional services	5,605	6,225	3,262	(620)	2,963
Total Expenditures	816,978	917,522	654,836	(100,544)	262,686
Excess (Deficiency) of Revenues over Expenditures	17,000	17,000	15,468		(1,532)
Other Financing Sources (Uses):					
Operating transfers out	(17,000)	(17,000)	(15,468)		1,532
Total Other Financing Sources (Uses)	(17,000)	(17,000)	(15,468)		1,532
Net Change in Fund Balances					
Fund Balances:					
July 1, 2008					
June 30, 2009	\$ 0	0	0	0	0

The notes to the required supplemental information are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Title II - A Fund  
 For the Year Ended June 30, 2009

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 166,396	166,396	165,718		(678)
Total Revenues	<u>166,396</u>	<u>166,396</u>	<u>165,718</u>		<u>(678)</u>
Expenditures:					
Instruction	184,730	176,288	165,978	8,442	10,310
Support services		8,442		(8,442)	8,442
Total Expenditures	<u>184,730</u>	<u>184,730</u>	<u>165,978</u>	<u>0</u>	<u>18,752</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(18,334)</u>	<u>(18,334)</u>	<u>(260)</u>		<u>18,074</u>
Other Financing Sources (Uses):					
Operating transfers in	18,334	18,334	260		(18,074)
Total Other Financing Sources (Uses)	<u>18,334</u>	<u>18,334</u>	<u>260</u>		<u>(18,074)</u>
Net Change in Fund Balances					
Fund Balances:					
July 1, 2008					
June 30, 2009	\$ <u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

The notes to the required supplemental information are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 IDEA Part B Fund  
 For the Year Ended June 30, 2009

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
State sources	\$	3,628	3,628	3,628	
Federal sources	1,028,138	1,029,237	553,078	1,099	(476,159)
Total Revenues	1,028,138	1,032,865	556,706	4,727	(476,159)
Expenditures:					
Instruction	436,357	509,523	236,602	(73,166)	272,921
Support services	574,781	504,567	303,587	70,214	200,980
Noninstructional services		1,775	1,291	(1,775)	484
Total Expenditures	1,011,138	1,015,865	541,480	(4,727)	474,385
Excess (Deficiency) of Revenues over Expenditures	17,000	17,000	15,226		(1,774)
Other Financing Sources (Uses):					
Operating transfers out	(17,000)	(17,000)	(15,226)		1,774
Total Other Financing Sources (Uses)	(17,000)	(17,000)	(15,226)		1,774
Net Change in Fund Balances					
Fund Balances:					
July 1, 2008					
June 30, 2009	\$ 0	0	0	0	0

The notes to the required supplemental information are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Sixteenth Section Interest Fund  
 For the Year Ended June 30, 2009

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Sixteenth section sources	\$ 413,747	525,591	218,851	111,844	(306,740)
Total Revenues	<u>413,747</u>	<u>525,591</u>	<u>218,851</u>	<u>111,844</u>	<u>(306,740)</u>
<b>Expenditures:</b>					
Sixteenth section	66,947	79,203	21,853	(12,256)	57,350
Total Expenditures	<u>66,947</u>	<u>79,203</u>	<u>21,853</u>	<u>(12,256)</u>	<u>57,350</u>
Excess (Deficiency) of Revenues over Expenditures	<u>346,800</u>	<u>446,388</u>	<u>196,998</u>	<u>99,588</u>	<u>(249,390)</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	288,371	288,371			(288,371)
Operating transfers out	<u>(288,371)</u>	<u>(324,657)</u>	<u>(9,537)</u>	<u>(36,286)</u>	<u>315,120</u>
Total Other Financing Sources (Uses)	<u></u>	<u>(36,286)</u>	<u>(9,537)</u>	<u>(36,286)</u>	<u>26,749</u>
Net Change in Fund Balances	<u>346,800</u>	<u>410,102</u>	<u>187,461</u>	<u>63,302</u>	<u>(222,641)</u>
<b>Fund Balances:</b>					
July 1, 2008	<u>2,833,038</u>	<u>2,912,372</u>	<u>2,912,372</u>	<u>79,334</u>	<u></u>
June 30, 2009	<u>\$ 3,179,838</u>	<u>3,322,474</u>	<u>3,099,833</u>	<u>142,636</u>	<u>(222,641)</u>

The notes to the required supplemental information are an integral part of this statement.

LINCOLN COUNTY SCHOOL DISTRICT  
Notes to the Required Supplemental Information  
For the Year Ended June 30, 2009

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedules present the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

LINCOLN COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

LINCOLN COUNTY SCHOOL DISTRICT  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2009

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 253,531
National school lunch program	10.555	728,459
Total child nutrition cluster		981,990
Passed through Lincoln County:		
Schools and roads cluster:		
Schools and roads - grants to states	10.665	17,404
Total schools and roads cluster		17,404
Total U.S. Department of Agriculture		999,394
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.XXX	64,753
Total Federal Communications Commission		64,753
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Rehabilitation Services:		
Rehabilitation services - vocational rehabilitation grants to states	84.126	392
Total		392
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	669,899
Career and technical education - basic grants to states	84.048	20,979
Safe and drug-free schools and communities- state grants	84.186	12,868
State grants for innovative programs	84.298	671
Education technology state grants	84.318	11,750
Rural education	84.358	24,328
Improving teacher quality state grants	84.367	165,719
Total		906,214
Special education cluster:		
Special education - grants to states	84.027	579,517
Special education - preschool grants	84.173	11,297
Total special education cluster		590,814
Total passed-through Mississippi Department of Education		1,497,028
Total U.S. Department of Education		1,497,420
Total for All Federal Awards		\$ 2,561,567

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

LINCOLN COUNTY SCHOOL DISTRICT  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2009

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 14,716,107	11,689,370	651,470	793,056	1,582,211
Other	6,285,890	1,293,597	179,697	34,113	4,778,483
Total	\$ <u>21,001,997</u>	<u>12,982,967</u>	<u>831,167</u>	<u>827,169</u>	<u>6,360,694</u>
Total number of students*	<u>2,890</u>				
Cost per student	\$ <u>7,267</u>	<u>4,492</u>	<u>288</u>	<u>286</u>	<u>2,201</u>

For purposes of this schedule, the following columnar descriptions are applicable:

**Instruction and Other Student Instructional Expenditures** - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes).

**General Administration** - includes expenditures for the following functions: Support Services - General Administration (2300s); and Support Services - Business (2500s).

**School Administration** - includes expenditures for the following function: Support Services - School Administration (2400s).

**Other** - includes all expenditure functions not included in Instruction or Administration Categories.

\* Includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

LINCOLN COUNTY SCHOOL DISTRICT

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LINCOLN COUNTY SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

LINCOLN COUNTY SCHOOL DISTRICT

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LINCOLN COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
 General Fund  
 Last Four Years

"UNAUDITED"

	<u>2009</u>	<u>2008*</u>	<u>2007*</u>	<u>2006*</u>
<b>Revenues:</b>				
Local sources	\$ 3,822,329	3,884,031	3,942,082	3,739,171
State sources	13,807,313	13,734,155	12,514,246	12,027,993
Federal sources	82,550	284,422	114,584	101,607
Total Revenues	<u>17,712,192</u>	<u>17,902,608</u>	<u>16,570,912</u>	<u>15,868,771</u>
<b>Expenditures:</b>				
Instruction	9,989,935	9,861,753	9,232,821	9,342,254
Support services	5,430,114	5,572,898	4,782,382	4,554,447
Noninstructional services	47,169	71,938	66,524	114,285
Sixteenth section	14,608	14,362	13,492	
Facilities acquisition and construction		35,499	49,858	88,168
Total Expenditures	<u>15,481,826</u>	<u>15,556,450</u>	<u>14,145,077</u>	<u>14,099,154</u>
Excess (Deficiency) of Revenues over Expenditures	<u>2,230,366</u>	<u>2,346,158</u>	<u>2,425,835</u>	<u>1,769,617</u>
<b>Other Financing Sources (Uses):</b>				
Insurance loss recoveries		141,993		
Sale of transportation equipment	1,237	3,157	4,368	1,996
Sale of other property	500	101		1,100
Operating transfers in	164,428	262,030	566,186	326,738
Operating transfers out	(2,488,141)	(1,691,632)	(2,135,844)	(2,175,514)
Total Other Financing Sources (Uses)	<u>(2,321,976)</u>	<u>(1,284,351)</u>	<u>(1,565,290)</u>	<u>(1,845,680)</u>
Net Change in Fund Balances	<u>(91,610)</u>	<u>1,061,807</u>	<u>860,545</u>	<u>(76,063)</u>
<b>Fund Balances:</b>				
Beginning of period, as originally reported	4,539,843	3,478,036	2,617,491	2,693,554
Prior period adjustment	776			
Beginning of period, as restated	<u>4,540,619</u>	<u>3,478,036</u>	<u>2,617,491</u>	<u>2,693,554</u>
End of Period	<u>\$ 4,449,009</u>	<u>4,539,843</u>	<u>3,478,036</u>	<u>2,617,491</u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

LINCOLN COUNTY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
All Governmental Funds  
Last Four Years

"UNAUDITED"

	2009	2008*	2007*	2006*
<b>Revenues:</b>				
Local sources	\$ 4,614,370	4,817,132	5,090,962	4,815,584
State sources	14,512,772	14,444,292	13,439,466	12,745,490
Federal sources	2,588,718	2,755,482	2,278,499	2,470,350
Sixteenth section sources	2,683,574	3,282,304	2,212,141	2,346,282
Total Revenues	<u>24,399,434</u>	<u>25,299,210</u>	<u>23,021,068</u>	<u>22,377,706</u>
<b>Expenditures:</b>				
Instruction	11,688,502	11,586,719	10,816,716	11,140,936
Support services	6,053,763	6,154,386	5,309,255	5,089,552
Noninstructional services	1,392,782	1,358,636	1,235,958	1,190,134
Sixteenth section	460,829	598,075	346,135	426,604
Facilities acquisition and construction	599,641	2,450,510	874,787	1,480,547
Debt service:				
Principal	510,000	470,000	660,000	668,300
Interest	294,140	314,295	342,953	374,640
Other	2,340	2,399	2,385	2,957
Total Expenditures	<u>21,001,997</u>	<u>22,935,020</u>	<u>19,588,189</u>	<u>20,373,670</u>
Excess (Deficiency) of Revenues over Expenditures	<u>3,397,437</u>	<u>2,364,190</u>	<u>3,432,879</u>	<u>2,004,036</u>
<b>Other Financing Sources (Uses):</b>				
Insurance loss recoveries		141,993		640,860
Sale of transportation equipment	1,237	3,157	4,368	1,996
Sale of other property	500	101		1,100
Operating transfers in	2,652,569	1,998,635	2,416,230	3,173,002
Operating transfers out	(2,652,569)	(1,998,635)	(2,416,230)	(3,173,002)
Other financing uses				(71)
Total Other Financing Sources (Uses)	<u>1,737</u>	<u>145,251</u>	<u>4,368</u>	<u>643,885</u>
Net Change in Fund Balances	<u>3,399,174</u>	<u>2,509,441</u>	<u>3,437,247</u>	<u>2,647,921</u>
<b>Fund Balances:</b>				
Beginning of period, as originally reported	17,438,170	14,928,690	11,476,693	8,833,067
Prior period adjustment	776			
Beginning of period, as restated	<u>17,438,946</u>	<u>14,928,690</u>	<u>11,476,693</u>	<u>8,833,067</u>
Increase (Decrease) in reserve for inventory	<u>7,293</u>	<u>39</u>	<u>14,750</u>	<u>(4,295)</u>
End of period	<u>\$ 20,845,413</u>	<u>17,438,170</u>	<u>14,928,690</u>	<u>11,476,693</u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

LINCOLN COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

LINCOLN COUNTY SCHOOL DISTRICT

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Superintendent and School Board  
Lincoln County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lincoln County School District as of and for the year ended June 30, 2009, which collectively comprise Lincoln County School District's basic financial statements and have issued our report thereon dated February 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Finding 09-1 and 09-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matter that we have reported to management of the school district in a separate letter dated February 15, 2011, which is included in this report.

Lincoln County School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Lincoln County School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

February 15, 2011



**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board  
Lincoln County School District

Compliance

We have audited the compliance of the Lincoln County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Lincoln County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, Lincoln County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Lincoln County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lincoln County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.



A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board and management, others within the entity, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Will R. Dooss". The signature is written in a cursive style with a long horizontal stroke at the end.

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

February 15, 2011

LINCOLN COUNTY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

LINCOLN COUNTY SCHOOL DISTRICT

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS**

Superintendent and School Board  
Lincoln County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of and for the year ended June 30, 2009, which collectively comprise Lincoln County School District's basic financial statements and have issued our report thereon dated February 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$2,342 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

Finding

The Mississippi Public Employees' Retirement System (PERS) requires retirees to submit a completed "Employee vs. Independent Contractor Questionnaire" to PERS to be employed as an independent contractor with a PERS-covered employer. The employing school district is required to complete part of the information on the form. If PERS agrees that there is a true independent contractor relationship, no limitation will be imposed by PERS on the employment or compensation. PERS sends the determination to the school district with a copy to the retiree.

The district could not provide a copy of "Employee vs. Independent Contractor Questionnaire" for one retired PERS service employee.

The employee's income could be affected by the district not securing a determination with regard to PERS Form "Employee vs. Independent Contractor Questionnaire" upon contracting with a retiree.

Recommendation

We recommend that the district obtain a determination with regard to PERS Form "Employee vs. Independent Contractor Questionnaire" when contracting with PERS service retirees. We further recommend that the district and retiree notify PERS to resolve the issue regarding the retiree referred to in this finding.

School District's Response:

District concurs and reiterates that the timing of the fiscal year 2008 audit prohibited the district from correcting the situation in fiscal year 2009. However, in fiscal year 2010 the district submitted the necessary form to the Public Employees Retirement System.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure that corrective action has been taken.

The Lincoln County School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

February 15, 2011

LINCOLN COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LINCOLN COUNTY SCHOOL DISTRICT

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LINCOLN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009

Section 1: Summary of Auditor's Results

Financial Statements:

- |    |   |             |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements:                        | Unqualified |
| 2. | Material noncompliance relating to the financial statements?                        | No          |
| 3. | Internal control over financial reporting:  |             |
| a. | Material weakness identified?   | No          |
| b. | Significant deficiency identified that is not considered to be a material weakness? | Yes         |

Federal Awards:

- |     |  |               |
|-----|--|---------------|
| 4.  | Type of auditor's report issued on compliance for major federal programs:  | Unqualified   |
| 5.  | Internal control over major programs:  |               |
| a.  | Material weaknesses identified?  | No            |
| b.  | Significant deficiencies identified that are not considered to be material weaknesses?   | None reported |
| 6.  | Any audit findings reported as required by Section ____.510(a) of Circular A-133?  | No            |
| 7.  | Federal programs identified as major programs:<br>Child Nutrition Cluster<br>CFDA #10.553 – School Breakfast Program<br>CFDA #10.555 – National School Lunch Program   |               |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$300,000     |
| 9.  | Auditee qualified as a low-risk auditee?   | Yes           |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? | No            |

LINCOLN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009

Section 2: Financial Statement Findings

Significant Deficiencies Not Considered to Be Material Weaknesses

09-1. Controls Surrounding Segregation of Duties Should Be Strengthened

Finding

Management is responsible for establishing a proper internal control system to ensure proper financial accountability and proper reporting of revenues.

During the test work for internal controls, we noted the bookkeepers at each school performed or had the ability to perform the following functions, which indicated a lack of segregation of duties:

- Prepared receipts
- Prepared deposit slips
- Recorded data in the accounting system

Also, we noted that the business manager performed or had the ability to perform the following functions, which indicated a lack of segregation of duties:

- Prepared deposit slips
- Transported deposits to the bank
- Recorded data in the accounting system
- Reconciled bank statements

In addition, we noted that the accounts payable clerk and payroll clerk processed and prepared claims and payroll for payment. Once the checks are processed, each clerk is able to acquire the superintendent's signature stamp and stamp the signature on their respective checks.

Without proper segregation of duties, the district increases the risk that unauthorized or inappropriate transactions could be processed and district personnel not detect irregularities during the normal course of their duties. This is a repeat finding from the prior year audit.

Recommendation

We recommend the district revise policies and procedures whereby duties would be divided to the greatest extent possible.

09-2. Internal Controls Surrounding Child Nutrition Receipts Should Be Strengthened

Finding

Management is responsible for complying with the requirements of the Mississippi Department of Education's Policy and Procedures Manual for Child Nutrition Programs, which recommends that two separate individuals be involved in cashiering, cash collection and daily reconciliations.

During our tests of one week of Child Nutrition receipts, we noted that the Cash Collection/Recap Sheets were not signed by either the cashier or the manager.

Lack of adequate internal controls surrounding Child Nutrition receipts could result in misappropriation of assets and improper revenue recognition.

LINCOLN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009

Recommendation

We recommend that the district adhere to the Mississippi Department of Education's Policy and Procedures Manual for Child Nutrition Programs by requiring two separate individuals document their approval of the daily reconciliations by signing and dating the reconciliations.

Section 3: Federal Award Findings and Questioned Costs

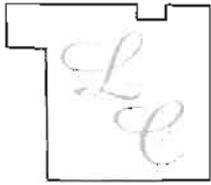
The results of our tests did not disclose any findings and questioned costs related to the federal awards.

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LINCOLN COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

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# Lincoln County School District

Terry Brister, Superintendent of Education

Phone 601.835.0011  
Fax 601.833.3030  
<http://lcsd.k12.ms.us>

P O Box 826  
233 East Monticello Street  
Brookhaven, Mississippi 39602-0826

February 15, 2011

As required by Section 315(c) of OMB Circular A-133, the Lincoln County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2009.

Finding 2009-01

Corrective Action Plan

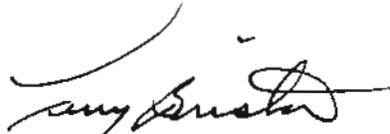
- a. Cheryl Shelby, Director of Finance, 601-835-0011
- b. District would like to reiterate that the timing of the fiscal year 2008 audit prevented corrective action from being taken in fiscal year 2009. Corrective action was taken on all issues in July of 2009. Enhancements to the current system were made such as having a second secretary prepare/verify the deposit slip. Policy has always been that the principals are required to take the deposit to the bank. However, we feel that our current system of the bookkeeper coding the receipt and entering the receipt into the accounting software is the most efficient system to prevent coding errors from occurring so no changes to this portion of the system will be made. An additional accountant was hired in July of 2009 and this allowed the district to adequately segregate the receipt process in the central office. Check logs for both accounts payable and payroll checks were established and neither the payroll clerk nor the accounts payable clerk are allowed to stamp checks that they generated.
- c. Since fiscal year 2009 was completed prior to the FY 08 findings being received, corrective action was taken in July of 2009 for the 2010 year.

*"In Pursuit of Excellence"*

Finding 2009-02

- a. Jeremy Berry, Child Nutrition Director, 601-833-0490
- b. It has been the policy of the district that the manager and cashier sign off on the Cash Collection/ Recap Sheets. Child Nutrition Director issued a mandate to all cafeteria staff to reiterate this policy and will verify on site visits that this policy is being adhered to.
- c. Immediately

Sincerely,



Amy Bruster  
Superintendent of Education